

Message Text

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ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 EURE-00 AID-05 CIAE-00 COME-00
EB-08 FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02
OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15
STR-04 CEA-01 EA-07 NEA-10 AGRE-00 CU-02 OES-06 ITC-01
DODE-00 PM-04 H-01 L-03 PA-01 PRS-01 DLOS-06 /135 W
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TO SECSTATE WASHDC PRIORITY 9380

INFO USMISSION OECD PARIS

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E.O. 11652:N/A

TAGS: ECON, EFIN, ETRD, SP, PFOR

SUBJECT: FIRST MEETING OF JOINT ECONOMIC COMMITTEE

REF: MADRID 1935, MADRID 1815, MADRID 1750, MADRID 1690,
MADRID 1363, MADRID 1372

1. SUMMARY. THE FIRST MEETING OF THE JOINT ECONOMIC
COMMITTEE ESTABLISHED UNDER THE TREATY OF FRIENDSHIP AND
COOPERATION WAS HELD MARCH 14 WITH THE ASST SECRETARY OF
STATE FOR ECONOMIC AFFAIRS AND THE GOS FONMIN DIRECTOR
GENERAL OF INTERNATIONAL ECONOMIC AFFAIRS AS CO-CHAIRMEN. US SIDE
OPENED WITH BRIEF PRESENTATION OF US FOREIGN ECONOMIC
POLICY. GOS FOLLOWED WITH REVIEW OF CURRENT SPANISH ECONOMIC
SITUATION WITH EMPHASIS ON MAJOR PROBLEMS OF INFLATION
AND BALANCE OF PAYMENTS DEFICIT, INCLUDING SEPARATE
ANALYSIS OF DEFICIT IN ACCOUNT WITH US. MEETING THEN
TURNED TO SPECIFIC TRADE ISSUES OF US QUOTAS ON SPECIALTY
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STEEL, POSSIBLE ADOPTION OF ITC RECOMMENDED RESTRICTIONS
ON SHOE IMPORTS, AND US COUNTERVAILING DUTIES ON SPANISH
PRODUCTS. IN CONNECTION WITH LATTER ISSUE, COMMITTEE
REVIEWED REPORT OF MEETING HELD BETWEEN US TREASURY
REPS AND GOS IN JANUARY. GOS SIDE ALSO AIRED VIEWS ON
US DICS PROGRAM AND NEW FISHING AGREEMENT. MEETING ENDED
WITH BOTH SIDES AGREEING IT WAS USEFUL IN CLARIFYING

MAJOR BILATERAL ECONOMIC TOPICS. END SUMMARY.

2. US FOREIGN ECONOMIC POLICY: THE FIRST MEETING OF THE JOINT ECONOMIC COMMITTEE WAS HELD AT FONMIN MARCH 14 BETWEEN US DELEGATION HEADED BY ASSISTANT SECRETARY OF STATE JULIUS KATZ AND SPANISH DELEGATION LED BY FONMIN DIRECTOR GENERAL INTERNATIONAL ECONOMIC AFFAIRS CARLOS GAMIR. MR. KATZ OPENED MEETING WITH STATEMENT ON US FOREIGN ECONOMIC POLICY WHICH HE SAID PRESENTS NO FUNDAMENTAL CHANGE ALTHOUGH SOME CHANGE ON EMPHASIS, IN ADDRESSING THE MAIN PROBLEMS OF ECONOMIC RECOVERY, FREER TRADE THROUGH MULTI-LATERAL NEGOTIATIONS, ENERGY PROBLEMS, ADEQUATE FOOD SUPPLY, AND REGULATION OF INTERNATIONAL BUSINESS PRACTICES. SR. GAMIR RESPONDED BY COMMENTING FURTHER ON ENERGY SITUATION, FOOD SUPPLY AND SPAIN'S MOVE TOWARD INTEGRATION WITH THE EEC. HE PRESENTED DOCUMENTS ON STATE OF SPANISH ECONOMY MENTIONING INFLATION AND RELATED BALANCE OF PAYMENTS DEFICIT AS MOST PRESSING PROBLEMS.

3. SPANISH ECONOMIC SITUATION. GOS MIN OF COMMERCE REP (ALCAIDE) THEN PRESENTED DETAILED REPORT ON STATE OF SPANISH ECONOMY. HE STRESSED IMPORTANCE OF DEALING WITH INFLATION BUT NOTED DIFFICULTY IN DOING SO IN VIEW OF CONCURRENT DESIRE TO REACTIVATE ECONOMY. ALCAIDE WAS NOT OPTIMISTIC ABOUT POSSIBILITIES OF REDUCING INFLATION IN 1977. HE THEN PRESENTED PAPERS ON SPAIN'S CURRENT ACCOUNT BALANCE OF PAYMENTS AND THE BILATERAL ACCOUNT WITH THE US. HE EXPLAINED THAT 1974 OIL PRICE HIKE DEALT SEVERE BLOW TO SPAIN'S BALANCE OF PAYMENTS WITH ITS LIMITED OFFICIAL USE

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CURRENT ACCOUNT DEFICIT NOW REPRESENTING 20 PERCENT OF TOTAL OECD DEFICIT. SPAIN'S CURRENT ACCOUNT DEFICIT ROSE FROM \$3.4 BILLION IN 1975 TO \$4.3 BILLION IN 1976, AND GOS EXPECTS SIMILAR DEFICIT IN 1977. SPAIN HAS SO FAR MET DEFICIT THROUGH SOME DRAW DOWN OF FOREIGN RESERVES, BUT MORE THROUGH BORROWING ABROAD. GOS BELIEVES SPAIN CAN CONTINUE TO OBTAIN CREDIT SINCE ITS FOREIGN DEBT OF \$10 BILLION IS STILL CONSIDERED TO BE MANAGEABLE. HOWEVER, IT MUST TAKE STEPS TO CORRECT ITS BALANCE OF PAYMENTS PROBLEM.

4. US-SPANISH BILATERAL ACCOUNT. REGARDING BILATERAL BOP WITH US, MINCOMM REP SAID SPAIN HAD RUN DEFICITS OF \$700 MILLION IN 1974, \$900 MILLION IN 1975 AND \$825 MILLION IN 1976. THE BASIC BALANCE (ADDING LONG TERM CAPITAL FLOWS) YIELDED A DEFICIT OF \$376 MILLION IN 1975. THE BASIC BALANCE FOR 1976 HAS NOT BEEN CALCULATED YET BUT IN VIEW OF SHARPLY REDUCED US INVESTMENT IN SPAIN (ONLY \$30 MILLION IN NEW MAJORITY US INVESTMENT) IT IS EXPECTED TO BE MUCH CLOSER TO THE CURRENT ACCOUNT DEFICIT. ON THIS

POINT GAMIR EXPRESSED SPAIN'S DESIRE FOR INCREASED US INVESTMENT.

5. FOREIGN BANKS AND DOUBLE TAXATION. MIN OF FINANCE REP (DEL ARCO) SAID HE COULD FORESEE NO CHANGE IN CURRENT REGULATIONS CONTROLLING FOREIGN BANK ENTRY INTO SPAIN AND NOTED THIS WAS A SENSITIVE QUESTION IN SPAIN. HE IMPLIED THAT THE CURRENT GOS FOCUS IS THE TERMINATION OF GOVERNMENT INTEREST RATE FIXES. HE ALSO EXPECTED NEXT WEEK'S MEETING ON DOUBLE TAXATION TREATY TO ENCOUNTER SAME HURDLES AS BEFORE (SEE MADRID 1919).

6. US COMMENTS ON SPANISH ECONOMY. KATZ EXPRESSED APPRECIATION FOR SPANISH EXPOSITION OF ECONOMIC PROBLEMS AND PROSPECTS. HE SAID HE WOULD HAVE TO DEFER TO GOS VIEWS AS TO WHAT ECONOMIC POLICIES WOULD BE POLITICALLY FEASIBLE, BUT THAT A CONTINUING HIGH RATE OF INFLATION LIMITED OFFICIAL USE

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COULD ONLY EXACERBATE THE BALANCE OF PAYMENTS PROBLEM. HE ADDED THAT THE EX-IM BANK WOULD CONTINUE TO BE A SOURCE OF FUNDING FOR IMPORTANT SPANISH IMPORTS FROM THE US AND EXPRESSED VIEW THAT ALLOWING US BANKS INTO THE COUNTRY WOULD IMPROVE FLOW OF INVESTMENT FUNDS AND FACILITATE TRADE.

7. SPECIALITY STEEL. COMMERCIAL COUNSELOR OF THE SPANISH EMBASSY IN WASHINGTON JOSE MARIA SIERRA TURNED DISCUSSION TO SPECIFIC BILATERAL TRADE ISSUES. HE STARTED BY NOTING SPAIN'S CONCERN ABOUT THE ITC QUOTAS ON SPECIALTY STEEL IMPORTS. HE ASKED THAT THE US RECONSIDER STEEL QUOTAS WITH A VIEW TO THEIR ELIMINATION AND IF THIS IS NOT POSSIBLE, SPAIN WOULD LIKE SPECIAL CONSIDERATION IN ANY REALLOCATION OF UNUSED QUOTAS. HE ADDED THAT THE GOS INTENDS IN THE NEAR FUTURE TO REQUEST ITS OWN SEPARATE QUOTA FOR STAINLESS STEEL BARS SINCE IT IS THE SECOND LARGEST SUPPLIER OF THIS ITME TO THE US MARKET.

8. KATZ REPLIED THAT ITC IS REVIEWING STEEL QUOTAS. IN MEANTIME SPANISH STEEL NOW IN BONDED WAREHOUSES IN US WOULD PROBABLY BENEFIT MOST FROM REALLOCATION OF 582 TON UNUSED QUOTA FOR "BASKET" GROUP OF COUNTRIES. HE ADDED WE WOULD ALSO CONSIDER SEPARATE QUOTA FOR SPAIN FOR STAINLESS BARS IF QUOTAS CONTINUED.

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9. ITC ACTION ON SHOES. SIERRA INTRODUCED THIS TOPIC AS THE MOST SERIOUS BILATERAL PROBLEM BECAUSE OF EFFECT ON BOP, SPANISH LABOR FORCE, AND EFFORTS ON MTN PARTICIPANTS TO SEEK FREER TRADE. THEREFORE, SPAIN HOPES PRESIDENT CARTER WILL NOT IMPOSE RESTRICTIONS.

10. KATZ REPLIED THAT PRESIDENT CARTER IS FACED WITH SERIOUS DILEMMA, ON ONE SIDE MUST CONSIDER SERIOUS PROBLEMS FACED BY US INDUSTRY AND ON OTHER MUST RECOGNIZE-IMPACT ON US CONSUMER AND FOREIGN SUPPLIERS. SPANISH SIDE NOTED THAT QUOTAS BASED ON 1974 EXPORTS WOULD BE ESPECIALLY PREJUDICIAL TO SPAIN SINCE THAT WAS ABNORMALLY LOW YEAR FOR SHOE EXPORTS TO THE US. KATZ REITERATED DIFFICULTY OF BALANCING US INDUSTRY PROBLEMS WITH UNDERSTANDABLE CONCERNS OF OTHER COUNTRIES.

11. SPANISH QUOTA SYSTEM. US SIDE NOTED RECENT STEPS TO LIBERALIZE SPANISH QUOTA SYSTEM (ALLOCATION OF FOREIGN LIMITED OFFICIAL USE

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EXCHANGE FOR IMPORTS) AND EXPRESSED HOPE IT WILL BE DISMANTLED AS SOON AS PRACTICABLE. SPANISH SIDE RESPONDED THAT WITH EXCEPTION FO FISH PRODUCTS, LIBERALIZING TREND SHOULD CONTINUE.

12. COUNTERVAILING DUTY. THORNY ISSUE OF US COUNTERVAILING DUTY WAS THEN ADDRESSED. SPANISH CUSTOMS REP (ARRANZ) BEGAN WITH DESCRIPTION OF PREVIOUS SPANISH COOPERATION IN US TREASURY COUNTERVAILING DUTY INVESTIGATIONS AND GOS FULL EXPLANATION OF "DESGRAVACION FISCLA" (TAX REBATE) GIVEN TO SPANISH EXPORTS. HE WENT ON TO STATE THAT DESGRAVACION FISCAL DATES FROM 1964 THUS NOT CAUSE OF SPANISH EXPORT PENERATION OF US MARKET AND THAT, IF ANYTHING, REALIGNMENTS OF THE PESETA TO THE DOLLAR HAVE HAD FAR MORE INFLUENCE ON THESE EPXORTS. A SECOND POINT PRESENTED BY GOS WAS THAT SPANISH REBATE IS THE SAME AS EEC REBATE OF VAT (VALUE ADDED TAX), THUS US TREASURY SHOULD TREAT IT THE SAME AND NOT SUBJECT IT TO COUNTERVAILING DUTY. A THIRD POINT IN THE PRESENTATION WAS THAT GOS IS CONSIDERING EFFECT SOCIAL SECURITY "TAX," LARGELY BORNE BY MANUFACTURERS, WOULD HAVE IF IT WERE INCOPORATED INTO CALCULATION OF TAX REBATE.

13. KATZ REPLIED THAT US RECOGNIZES DIFFICULTY IN CALCULATING INCIDENCE OF SPANISH "CASCADING" TAX. HOWEVER, US TREASURY BELIEVES THERE IS AN ELEMENT OF OVERREBATE IN DESGRAVACION FISCAL THAT IS LEGITIMATE TARGET FOR COUNTERVAILING DUTY. POINTS RAISED ABOUT EFFECT OF REBATES ON EXPORT PEFORMANCE NOT RELEVANT SINCE COUNTERVAILING DUTY LAW DOES NOT REQUIRE THAT THERE BE INJURY. USG MUST ADMINISTER TRADE LAWS BY THOROUGHLY INVESTIGATING ALLEGATIONS BY US INDUSTRY OF UNFAIR TRADE PRACTICES, BUT IN NO WAY USES THEM FOR PROTECTIONIST PURPOSES.

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14. SIERRA THEN PRESENTED REPORT OF GOS MEETING IN JANUARY WITH US TREASURY DEPUTY ASSISTANT SECRETARY PETER SUCHMAN ON COUNTERVAILING INVESTIGATION OF ZINC. POINTED OUT HIS UNDERSTANDING THAT US TREASURY AGREED TO TAKE INTO CONSIDERATION NEW ELEMENTS IN COUNTERVAILING DUTY CASES PARTICULARLY SPANISH DEFENSE OF FOUR ITEMS IN CALCULATION PREVIOULS REJECTED BY TREASURY AS TAXES ACCEPTABLE FOR REBATE. SIERRA SAID GOS HAD RECIEVED NO REPLY TO THE SPANISH PRESENTATION AT THAT MEETING. US SIDE REPLIED THAT SUCHMAN MEETING ENDED WITH GOS AGREEING TO HAVE ITS INDUSTRY PROVIDE SUPPLEMENTAL INFORMATION TO TREASURY. SIERRA SAID THAT INDUSTRY HAD DONE THIS LAST WEEK AND EXPRESSED HOPE TREASURY WOULD FIND IN SPAIN'S FAVOR. HE RESPONDED TO SPECIFIC INQUIRY REGARDING REPORTS OF UNUSUALLY LARGE SPANISH ZINC SHIPMENTS BY

STATING THAT SPAIN WILL SHIP 8000 TONS OF ZINC IN MARCH AND EXPECTS TO SHIP MORE LATER, BUT ZINC SUPPLIERS HAVE NOT YET CONTRACTED BOTTOMS FOR LATER SHIPMENTS.

15. US DISC. GAMIR CALLED ATTENTION TO GATT CONCERN ABOUT US DISC PROGRAM. HE EXPRESSED APPRECIATION FOR US DESCRIPTION PRESENTED PREVIOUSLY AND ASKED IF THERE WAS A LIST OF DISC FIRMS. KATZ REPLIED THAT THE US IS PREPARED TO DISCUSS DISC IN GATT IN CONNECTION WITH TAX POLICIES OF SEVERAL OTHER COUNTRIES, BUT ADDED THAT DISC IS NOT RELATED TO COUNTERVAILING DUTY ISSUE. ON THAT POINT SIERRA INTERJECTED THAT A "SUBSIDY IS A SUBSIDY."

16. FISHING. THE DISCUSSION THEN TOUCHED ON FISHING WITH GAMIR EXPRESSING SPANISH DESIRE THAT, IN VIEW OF TIME LOST IN SIGNING FISHING AGREEMENT WITH US, AND SINCE QUOTAS ARE FIXED ACCORDING TO ABAILABLE RESOURCES, THE US EXPEND THE CURRENT SEASON TO MAKE UP FOR THE LOST TIME. KATZ REPLIED HE WAS NOT FAMILIAR WITH LATEST STATUS OF THIS ISSUE BUT WOULD PASS ON LIMITED OFFICIAL USE

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SPANISH REQUEST TO APPROPRIATE PEOPLE.

17. MEETING ENDED IN VERY CORDIAL ATMOSPHERE WITH PARTICIPANTS AGREEING THAT IT HAD SERVED TO CLARIFY EACH SIDE'S POSITION ON IMPORTANT ECONOMIC ISSUES OF BILATERAL INTEREST. COMMITTEE ALSO APPROVED THE PROCEDURAL GUIDELINES FOR THE COMMITTEE AND AGREED ON COMMUNIQUE WHICH GOS WOULD RELEASE TO PRESS (SEPTELS).

18. THIS MESSAGE WAS PREPARED FOLLOWING DEPARTURE FROM MADRID OF ASSISTANT SECRETARY KATZ. EATON

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Message Attributes

Automatic Decaptioning: X
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Control Number: n/a
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Decaption Note:
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Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
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